

The Public Service Group Insurance Fund

**Benefits Summary,
Auditor's Report
and
Financial Statements**

For the Year Ended April 30, 2004



Public Service Group Insurance Fund Benefits Summary

The Public Servants Insurance Act provides for the establishment of the Public Service Group Insurance Fund (PSGIF) which is administered by the Civil Service Superannuation Board. The PSGIF includes three plans to provide life insurance, accidental death and disablement insurance and dependents insurance for eligible employees and retired employees (and their eligible dependents) of the Government of Manitoba and most of its Agencies and Boards.

Each of the three Plans is self-funding. Employee, retired employee and employer contributions along with investment income finance all death and disablement claims and administration costs. On the termination of the Policy, payment would be made by the Province of Manitoba to the extent that reserves are insufficient to cover any Policy deficit.

Each of the three Plans is summarized below:

a) The Employees' Group Life Insurance Plan (established May 1, 1960)

Most employees join the Plan at the same time they are enrolled in the Civil Service Superannuation Fund Pension Plan. Employees are automatically covered for life insurance coverage of five times annual salary, but may select a lower multiple. The maximum coverage under the plan is \$1,000,000. For employees age 65 or more, insurance reduces in five year intervals based on age until age 73, at which time the employee is insured for \$3,000.

Life insurance automatically continues following retirement for eligible retired employees, reducing in five year intervals until age 73, at which time the pensioner is insured for \$3,000. As an alternative, retired employees can choose a \$3,000 paid-up policy at any time prior to age 73.

Eligible employees who retire or terminate employment due to ill health or injury may apply to continue group life (disability) insurance without making further contributions until age 65, at which time retirement insurance options are available.

b) The Accidental Death and Disablement Plan (established July 1, 1974)

An eligible employee who is insured under the Employees' Group Life Insurance Plan is automatically enrolled in the Accidental Death and Disablement Plan. This Plan does not insure retired employees.

The amount of accidental death and disablement insurance is based on the employee's annual salary (maximum of \$25,000) and insurance class (to a maximum of class three) under the Employees' Group Life Insurance Plan. An employee's maximum insurance is therefore \$75,000.

c) The Dependents' Group Life Insurance Plan (established May 1, 1962)

An eligible employee who is insured under the Employees' Group Life Insurance Plan may choose insurance coverage on his/her eligible dependents in the Dependents' Group Life Insurance Plan. The employee elects the amount of insurance by choosing from one unit to four units of insurance. An employee with four units of insurance, whose spouse is under age 70, would have the maximum \$60,000 of insurance on his/her spouse and \$12,000 of insurance on each child.

Eligible retired employees may choose to continue reduced insurance on their dependents following retirement.

Eligible employees who are granted a disability benefit under the Employees' Group Life Insurance Plan also continue to have dependents' group life (disability) insurance at no cost until age 65, when retirement insurance options are available.

MANAGEMENT REPORT

The accompanying financial statements of the Public Service Group Insurance Fund are the responsibility of management and have been prepared in accordance with the accounting policies stated in the notes to the financial statements. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to safeguard the assets of the Fund. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to September 10, 2004.

The firm of Ellement and Ellement Ltd. has been appointed as consulting actuary for the Fund. The role of the actuary is to complete the triennial actuarial valuations of the Fund in accordance with actuarial practice and estimate the obligations for benefits for inclusion in the annual financial statements.

The Auditor General performs an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. The resulting opinion is set out in the Auditors' Report attached to the financial statements.

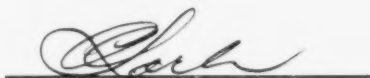
Ultimate responsibility for the financial statements rests with the members of the Board. The Board established a Finance and Audit Committee to meet with Board staff and representatives of the Auditor General. It is the responsibility of the Finance and Audit Committee to review the financial statements, ensure that each group has properly discharged its respective responsibilities and make a recommendation to the Board regarding approval of the financial statements. The auditors have full and unrestricted access to the Board and to the Finance and Audit Committee.

The Board has reviewed and approved these financial statements.

On behalf of Management,



Robert H. Covernton
General Manager



Allen Borle
Director, Finance



Office of the Auditor General

500 - 330 Portage Avenue
Winnipeg, Manitoba
CANADA R3C 0C4

AUDITORS' REPORT

To The Legislative Assembly of Manitoba

We have audited the statement of net assets available for benefits of the Public Service Group Insurance Fund as at April 30, 2004 and the statements of changes in net assets available for benefits for the employees' group life insurance plan, the accidental death and disablement plan and the dependents' group life insurance plan for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Public Service Group Insurance Fund as at April 30, 2004 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
September 10, 2004

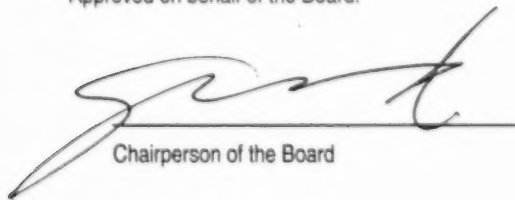
THE PUBLIC SERVICE GROUP INSURANCE FUND

Statement of Net Assets Available for Benefits

As at April 30, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Investments, Schedule 1, Note 2(b)	\$ 119,536,263	\$ 100,576,312
Accrued dividends and interest	769,382	770,551
Due from Canada Life Assurance Company	2,086,984	2,057,305
Accounts receivable	<u>28,925</u>	<u>282,703</u>
Total assets	<u>122,421,554</u>	<u>103,686,871</u>
LIABILITIES		
Provision for future claims/liabilities, Schedule 2, Note 4		
Employees' Group Life Insurance Plan	96,974,994	86,220,299
Accidental Death and Disablement Plan	7,031,723	6,087,232
Dependents' Group Life Insurance Plan	3,500,600	2,588,400
Contributions received in advance	126,665	75,678
Accounts payable	<u>75,803</u>	<u>22,345</u>
Total liabilities	<u>107,709,785</u>	<u>94,993,954</u>
NET ASSETS AVAILABLE FOR BENEFITS		
Employees' Group Life Insurance Plan, Exhibit B	10,224,833	5,124,542
Accidental Death and Disablement Plan, Exhibit C	985,061	549,499
Dependents' Group Life Insurance Plan, Exhibit D	<u>3,501,875</u>	<u>3,018,876</u>
Total net assets available for benefits	<u>\$ 14,711,769</u>	<u>\$ 8,692,917</u>

Approved on behalf of the Board:



Chairperson of the Board



Chairperson, Finance and Audit Committee

THE PUBLIC SERVICE GROUP INSURANCE FUND
 Employees' Group Life Insurance Plan
 Statement of Changes in Net Assets Available for Benefits
 For the year ended April 30, 2004

	<u>2004</u>	<u>2003</u>
Increase in assets		
Contributions		
Employees	\$ 8,313,402	\$ 8,296,758
Employers	2,683,205	2,630,576
Retired members	923,286	849,667
Total contributions	<u>11,919,893</u>	<u>11,777,001</u>
Investment income		
Short term	372,961	394,190
Segregated bond fund	2,412,709	2,371,293
Equity pooled funds	1,080,900	965,350
Total investment income	<u>3,866,570</u>	<u>3,730,833</u>
Current period change in fair value of investments	<u>13,133,214</u>	<u>(5,499,914)</u>
Total increase in assets	<u>28,919,677</u>	<u>10,007,920</u>
Decrease in assets		
Death claims, Note 2(f)	12,163,044	12,195,695
Change in actuarial provisions, Schedule 2, Note 2(d)	10,769,276	5,095,529
The Civil Service Superannuation Board		
Administration fee	101,685	96,931
Investment management fee	152,840	137,225
Professional fees	91,758	37,687
Canada Life Assurance Company		
Premium taxes	253,438	253,151
Administrative fees	93,223	90,125
Conversion charges	118,725	80,619
Risk charges	7,150	7,150
Stop loss charges	55,792	53,939
Other	<u>12,455</u>	<u>8,127</u>
Total decrease in assets	<u>23,819,386</u>	<u>18,056,178</u>
Increase (decrease) in net assets	<u>\$ 5,100,291</u>	<u>\$ (8,048,258)</u>
Net assets at beginning of year	\$ 5,124,542	\$ 13,172,800
Increase (decrease) in net assets	<u>5,100,291</u>	<u>(8,048,258)</u>
Net assets at end of year, Exhibit A	<u>\$ 10,224,833</u>	<u>\$ 5,124,542</u>

THE PUBLIC SERVICE GROUP INSURANCE FUND
 Accidental Death and Disablement Plan
 Statement of Changes in Net Assets Available for Benefits
 For the year ended April 30, 2004

	<u>2004</u>	<u>2003</u>
Increase in assets		
Contributions, employers	\$ 641,774	\$ 643,093
Investment income		
Short term	25,611	25,543
Bonds, debentures and coupons	121,669	113,316
Equity pooled funds	54,076	45,612
Total investment income	201,356	184,471
Current period change in fair value of investments	652,237	(268,634)
Total increase in assets	1,495,367	558,930
Decrease in assets		
Death claims, Note 2(f)	75,000	62,500
Change in actuarial provisions, Schedule 2, Note 2(d)	955,610	1,628,092
The Civil Service Superannuation Board		
Administration fee	5,064	4,556
Investment management fee	7,652	6,477
Professional fees	4,624	2,457
Canada Life Assurance Company		
Premium taxes	1,619	1,326
Administrative fees	3,400	3,962
Risk charges	5,850	5,850
Claims charge	360	708
Other	626	353
Total decrease in assets	1,059,805	1,716,281
Increase (decrease) in net assets	\$ 435,562	\$ (1,157,351)
Net assets at beginning of year	\$ 549,499	\$ 1,706,850
Increase (decrease) in net assets	435,562	(1,157,351)
Net assets at end of year, Exhibit A	\$ 985,061	\$ 549,499

THE PUBLIC SERVICE GROUP INSURANCE FUND
Dependents' Group Life Insurance Plan
Statement of Changes in Net Assets Available for Benefits
For the year ended April 30, 2004

	<u>2004</u>	<u>2003</u>
Increase in assets		
Contributions		
Employees	\$ 1,753,471	\$ 1,811,291
Retired members	256,493	242,343
Total contributions	<u>2,009,964</u>	<u>2,053,634</u>
Investment income		
Short term	24,852	27,557
Bonds, debentures and coupons	149,454	137,054
Equity pooled funds	66,242	54,989
Total investment income	<u>240,548</u>	<u>219,600</u>
Current period change in fair value of investments	<u>796,753</u>	<u>(326,345)</u>
Total increase in assets	<u>3,047,265</u>	<u>1,946,889</u>
Decrease in assets		
Death claims, Note 2(f)	1,561,500	997,500
Change in actuarial provisions, Schedule 2, Note 2(d)	912,200	123,200
The Civil Service Superannuation Board		
Administration fee	6,196	5,485
Investment management fee	9,375	7,810
Professional fees	5,679	1,531
Canada Life Assurance Company		
Premium taxes	32,597	20,847
Administrative fees	11,420	11,207
Conversion charges	22,518	17,580
Claims charge	1,804	1,920
Other	<u>977</u>	<u>921</u>
Total decrease in assets	<u>2,564,266</u>	<u>1,188,001</u>
Increase in net assets	<u>\$ 482,999</u>	<u>\$ 758,888</u>
Net assets at beginning of year	\$ 3,018,876	\$ 2,259,988
Increase in net assets	<u>482,999</u>	<u>758,888</u>
Net assets at end of year, Exhibit A	<u>\$ 3,501,875</u>	<u>\$ 3,018,876</u>

THE PUBLIC SERVICE GROUP INSURANCE FUND
Notes to Financial Statements
for the year ended April 30, 2004

1. Nature of Operations

The Public Servants Insurance Act (the Act) provides for the establishment of the Public Service Group Insurance Fund (the Fund). The Civil Service Superannuation Board is responsible for the administration of the Fund and the group insurance policies agreed to by representatives of the employees and employers participating in the Fund as set out in insurance policies between the Government of the Province of Manitoba and the insurance company. The Fund's operations are reported separately for:

the Employees' Group Life Insurance Plan,
the Accidental Death and Disablement Plan, and
the Dependents' Group Life Insurance Plan.

This separate reporting is consistent with the financial arrangements with the insurance company.

The Fund's fiscal year coincides with the insurance policy year for each Plan.

2. Significant Accounting Policies

(a) Basis of presentation

The financial statements of the Fund are prepared on a going-concern basis as a separate financial reporting entity, in accordance with Canadian generally accepted accounting principles.

(b) Investments

Investments are allocated to each Plan based on monthly unit values, which are based on contributions and withdrawals. Investments are recorded at fair value on a trade date basis. Fair values of investments are determined as follows:

- (i) Short term investments are valued at market, which approximates cost.
- (ii) Bond pooled fund and bonds, debentures and coupon investments are valued at year end market prices determined by independent sources.
- (iii) Equity pooled funds are valued at year end market prices as listed on the appropriate stock exchange.

(c) Foreign currency translation

The fair value of investments denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at year end and the resulting change is included in the change in fair value of investments. Revenue and expense transactions are translated at the exchange rates prevailing on the dates of the transactions and are included in investment income at the translated amounts.

(d) Provision for future claims/liabilities

A provision for future claims/liabilities for each Plan has been established using the latest triennial actuarial valuation report of the Fund as at December 31, 2003. This provision has been projected by Ellement and Ellement, consulting actuaries, to April 30, 2004.

(e) Investment income

Investment income is allocated to each Plan based on monthly unit values, which are based on contributions and withdrawals.

THE PUBLIC SERVICE GROUP INSURANCE FUND
Notes to Financial Statements
for the year ended April 30, 2004

2. Significant Accounting Policies (continued)

(f) Death claims

Death claims include current and prior year death and disablement claims reported to the Fund up to July 1, following the year-end.

(g) Expenses

Direct costs are charged to each Plan. The Civil Service Superannuation Board administration fee, investment management fee, and other indirect administration costs are prorated between Plans based on monthly unit values, which are based on contributions and withdrawals.

(h) Use of estimates

The preparation of financial statements in accordance with the Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

3. Risk Management

Fair values of investments are exposed to interest rate risk, credit risk and currency risk.

Interest rate risk refers to the impact of interest rate changes on the Fund's cash flows, financial position and income. To limit the exposure to interest rate fluctuation, obtain the best possible return at acceptable risk and maintain the required liquidity, the asset mix is at 51% fixed income and 49% equity as at April 30, 2004.

<u>Term to maturity</u>	<u>2004</u>	<u>2003</u>
Less than one year	\$11,465,536	\$12,369,551
One to five years	13,349,987	13,053,312
Over five years	<u>35,617,773</u>	<u>31,311,000</u>
Total fixed income investments	<u>\$60,433,296</u>	<u>\$56,733,863</u>

Credit risk is the risk of loss from the failure of a counterparty to discharge its contractual obligations. The Board limits credit risk by concentrating on high quality securities, established investment ownership limits and acceptable credit ratings. In the case of bonds and debentures, 95% must be rated single A or higher.

Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates. The Fund does, from time to time, hedge some of this exposure. As at April 30, 2004 external fund managers had entered into forward foreign exchange contracts valued at \$756,715 (2003 - \$3,592) on behalf of the Fund.

THE PUBLIC SERVICE GROUP INSURANCE FUND

Notes to Financial Statements for the year ended April 30, 2004

4. Actuarial Valuations

In accordance with the Act, an actuarial report is required at least once every three years. The last triennial actuarial valuation report on the three plans administered by the Fund was prepared by Ellement and Ellement Ltd., consulting actuaries, as at December 31, 2003.

The actuarial report contemplates that the Fund and each Plan will continue to be in existence and that employees and dependents will continue to participate in these Plans on the completion of eligibility requirements. Significant long-term actuarial assumptions used in determining the provision for future claims/liabilities were:

Annual rate of return	6.00%
Salary escalation rates:	
(i) general increases	
a) inflation component	2.50%
b) productivity component	0.75%
(ii) service, merit and promotional increases	*
* the rates used vary by gender and age grouping from a high of 3.00% to a low of 0%	

The valuation indicated the following net assets available for benefits:

	April 30, 2004 valuation projection <u>Exhibit A</u>	December 31, 2003 <u>valuation</u>
Employees' Group Life Insurance Plan	\$ 10,224,833	\$ 9,493,282
Accidental Death & Disablement Plan	\$ 985,061	\$ 803,968
Dependents' Group Life Insurance Plan	\$ 3,501,875	\$ 3,480,509

5. Termination of Policies

Upon termination of the policy in place for the Employees' Group Life Insurance Plan, the Accidental Death and Disablement Plan or the Dependents' Group Life Insurance Plan, the insurer will remit any net policy surplus as a final refund to the Fund for the applicable Plan. If there is a net policy deficit, a payment will be made to the insurer from the appropriate Plan's surplus funds. To the extent that the appropriate Plan's surplus funds are not sufficient to cover any net policy deficit, payment to the insurer will be made by the Minister of Finance.

6. Transfer of Employer Actuarial Surplus

In 1996, the Government of the Province of Manitoba passed an amendment to the Act. The amendment permits a payment of an actuarial surplus in the Fund to be made to the Minister of Finance on behalf of the employers. The payment amount requires the actuary's approval and negotiated agreement between the employer and employees.

7. Status of Fund

The Government of the Province of Manitoba and Canada Revenue Agency (CRA) have had discussions concerning the status of the Fund for income tax purposes. CRA has now decided to defer those discussions until they complete their review of funded group life insurance plans and the employee benefit plan legislation.

THE PUBLIC SERVICE GROUP INSURANCE FUND
Summary of Investments
As at April 30, 2004

	<u>2004</u>	<u>2003</u>
Fixed Income Investments		
Cash and short term		
Government and corporations	\$ 11,824,701	\$ 12,276,071
Bonds, debentures and coupons		
Pooled fund		
Domestic	48,608,594	44,457,792
Total fixed income investments	<u>60,433,295</u>	<u>56,733,863</u>
Equity Investments		
Pooled funds		
Domestic	33,869,201	25,361,709
Foreign	25,233,767	18,480,740
Total equity investments	<u>59,102,968</u>	<u>43,842,449</u>
Investments, Exhibit A	<u>\$ 119,536,263</u>	<u>\$ 100,576,312</u>

THE PUBLIC SERVICE GROUP INSURANCE FUND
Schedule of Changes in Provision for Future Claims/Liabilities
As at April 30, 2004

	<u>2004</u>	<u>2003</u>
Employees' Group Life Insurance Plan		
Balance beginning of year	\$ 86,220,299	\$ 81,124,770
Change in actuarial provisions, Note 2(d)		
Net future claims/liabilities (released)	2,838,000	(579,500)
Interest accrued	6,203,576	4,244,118
Changes in actuarial reserves	<u>1,727,700</u>	<u>1,430,911</u>
Subtotal, Exhibit B	10,769,276	5,095,529
Surplus Payment - Civil Service Superannuation Board	<u>(14,581)</u>	<u>-</u>
Provision for future claims/liabilities, Exhibit A	<u>\$ 96,974,994</u>	<u>\$ 86,220,299</u>
 Accidental Death and Disablement Plan		
Balance beginning of year	\$ 6,087,232	\$ 4,459,140
Change in actuarial provisions, Note 2(d)		
Net future claims/liabilities (released)	(51,100)	-
Interest accrued	1,089,410	(42,109)
Changes in actuarial reserves	<u>(82,700)</u>	<u>1,670,201</u>
Subtotal, Exhibit C	955,610	1,628,092
Surplus Payment - Civil Service Superannuation Board	<u>(11,119)</u>	<u>-</u>
Provision for future claims/liabilities, Exhibit A	<u>\$ 7,031,723</u>	<u>\$ 6,087,232</u>
 Dependents' Group Life Insurance Plan		
Balance beginning of year	\$ 2,588,400	\$ 2,465,200
Change in actuarial provisions, Note 2(d)		
Net future claims/liabilities (released)	371,100	1,900
Interest accrued	167,200	140,100
Changes in actuarial reserves	<u>373,900</u>	<u>(18,800)</u>
Subtotal, Exhibit D	<u>912,200</u>	<u>123,200</u>
Provision for future claims/liabilities, Exhibit A	<u>\$ 3,500,600</u>	<u>\$ 2,588,400</u>